

The Indian economy is poised for take-off

TK ARUN

MANY people have tended to write down India's growth potential, following the slowdown in economic momentum in the last couple of years (some predicting that in 2012-13, Indonesia is likely to grow faster than India, among the world's large emerging markets). But this would be myopic. The Indian growth story remains robust, and the economic growth rate is likely to accelerate from 2012-13 onwards.

Before the global financial crisis of 2008, the Indian economy had been growing at well over 9 percent. The growth rate slipped to 6.7 percent in 2007-08 but recovered swiftly to 8.4 percent in 2008-09 and stayed at that level the next year as well. Since then, growth has declined, to 6.5 percent in 2011-12 and likely 6 percent in the current fiscal year that will conclude in March 2013.

You cannot blame an external observer for concluding that Indians have hobbled themselves in their rope trick gone wrong and it is better to wait and watch, if not keep off. But those who let appearance overwhelm their appreciation of the reality are likely to miss the strongest growth story of the next two decades.

The Indian government's announcement in September last year of a slew of reform measures, allowing foreign investment in multi-brand retail (single-brand retail had already been opened up, although with conditions that are gradually being diluted), allowing foreign airlines to invest up to 49 percent in Indian airlines, raising the foreign investment cap in insurance to 49 percent, opening up some forms of distributing telecast signals to foreign capital, etc.



A vendor inflates balloons at Allahabad in India yesterday. The economic growth of the country is likely to accelerate from 2012-13 onwards.

Hopefully, this could well be the turning point for the economy. Not so much because these decisions in themselves break dramatic new ground, but because it signalled political decisiveness, key for India to break her shackles of policymaking inertia.

India has had minority or coalition governments continuously since 1989, except for a brief two and a half years early in the nineties. Therefore, making policy has been a function of not just reformist intent but of political management of coalitions as well. In this area, the present government had been seen as having a deficit bigger than the fiscal deficit.

But the September reforms signalled boldness: a key ally with the second largest contingent of legislators in parliament broke off in protest at opening up retail and left the ruling coalition but the political leadership was prepared for that exit and roped in external support.

The Indian government has been taking a number of measures that require considerable political courage. It has auctioned telecom spectrum, passed reforms to banking regulations that will allow the central bank, which also functions as the banking regulator, to issue new licences, initiated a system of direct cash transfer of subsidies and increased the prices of petroleum fuels, in order to reduce the subsidy burden on the fisc. The expectation is that more reforms would be announced when the annual budget is presented on the last day of February.

While this much is evident to anyone who follows the news on India, there are a few changes in the political economy that receive little attention but have enormous significance for accelerating growth.

The most important change is that in elections to the states (India has 28 provinces with their own elected governments), the people have made

it clear that they are no longer content with empty promises or mere offer of voice and identity, as they had been in the past. Leaders are expected to deliver governance and development. Those who rise to this expectation are rewarded with another term in office, and those who do not are voted out.

Politics in India has traditionally been a matter of patronage. Leaders patronised their own communities and struck alliances with one another to drum up majorities. The new political economy is forcing the same leaders to think of building expressways, new towns, forging policies for releasing land for industry and make schools teach and staff hospitals. Every major state now holds annual investor meets to draw in foreign investment.

The mass upheaval over corruption is forcing the system to adopt unprecedented transparency in the allocation of natural resources. A new

mining bill in the works will adopt transparent auctions for mines.

Pressures are mounting to dilute, if not scrap, public monopoly in coal mining, which has been a major factor in the shortage of fuel that has been keeping 50,000 megawatt of power generation capacity idle in the country. A new ruling by a central appellate tribunal now ensures that every state level electricity regulator would revise power tariffs at least once every year. Refusal by these regulators to pass on the higher cost of imported coal has been one reason behind the fuel shortage in the power sector.

The good news is that India today has 50,000 megawatt of idle capacity. In the absence of enough power to supply rural areas in the daytime (power is despatched for a few hours at night so that farmers can run their pumps for irrigation) has meant that very little rural industry has been possible till now.

Once the fuel shortage has been sorted out, rural India would be ripe for structural diversification, new agro processing industry absorbing underemployed manpower and farmers gaining from new climate-controlled warehouses and better prices through local procurement by local industry for local processing. State-owned Bharat Broadband Corporation is busy rolling out fibre-optic cable to 250,000 large villages (India has a little over 600,000 villages in total).

In a couple of years' time, most Indians would have access to high-speed data, thanks to the spread of telecom and the ongoing morphing of mobile phones into sophisticated data and computing devices, whose prices are falling at an amazing rate.

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Govt opens up bio-pesticide business

SOHEL PARVEZ

THE government has started certifying bio-pesticides -- the first move that opens scope for businesses to market environment-friendly pest control agents to farmers for growing safe vegetables and fruits.

Two types of pheromones and a bio-pesticide received the green light from the Department of Agricultural Extension (DAE). More biological control agents will be registered by the middle of this year, Nazmul Ahsan, DAE's pesticide regulation officer, said yesterday.

"We could not allow bio-pesticides to be marketed because there was no legal provision," Ahsan said.

"The rules have been amended and now we have started approving bio-pesticides for sale to farmers." Farmers and consumers will benefit from the increased use of bio-pesticides.

DAE's Plant Protection Wing, where Ahsan works, has received applications for registration of nine types of biological control agents. Pesticides Technical Advisory Committee (PTAC), a government-formed panel, approved the items last month.

Local tea-giant Ispahani Ltd got clearance for selling two types of pheromones, which help control pest in cucurbit, mango and guava, the company said.

Russel IPM, a UK-based bio-pesticide maker, was also approved for marketing a bio-pesticide that curbs insects of brinjal, chilli, bean and tomato, according to an official of Russel IPM.

Bio-pesticides came as an alternative to chemical pesticides. The excessive use of chemical pesticides over a long period has deepened health-hazard worries.

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Bio-pesticide traps in a vegetable farm.

Davos bosses hunt \$5 trillion revenue in low-growth world

REUTERS, Davos, Switzerland

BUSINESS leaders in Davos have plenty to worry about, from the euro zone to global geopolitical upheavals, but at heart their problem is simple: how to find new revenue in a low-growth world.

Half a decade on from the financial crisis, investors want to see earnings driven by more than just cost cutting. Their focus now is on a return to sales growth, which presents the world's largest corporations with a \$5 trillion challenge.

That is the amount of extra revenue the 1,200 top global companies need to find each year simply to meet analysts' expectations, according to consulting firm Accenture.

"The trouble is that stock markets' expectations of the ability of companies to grow far exceeds the underlying macroeconomic growth rates," said Mark Spelman, Accenture's global head of strategy.

"So companies need to get beyond just thinking about emerging markets and rising middle classes and start to look at those segments where you are seeing significant consumer change, because there is a lot of latent growth in those segments."

Increasingly, companies are seeking specific pockets of opportunity for sales growth. They remain cautious about major new investments, however, with confidence among managers in the near-term outlook for their businesses still weak.

The annual PricewaterhouseCoopers survey of more than 1,300 chief executives worldwide found only 36 percent were "very confident" of their firm's prospects for revenue



growth in the next 12 months, down from 40 percent a year ago.

The mismatch between the sputtering global market for goods and services predicted by macroeconomists and the lofty numbers forecast by analysts following individual companies is striking.

In all regions, analysts' forecasts for company revenue growth are well above prevailing views on underlying economies.

While the World Bank last week cut its 2013 global growth forecast to 2.4 percent - and just 1.3 percent in advanced economies - analysts see company revenues expanding by 7.8 percent in Asia outside Japan, 3.8 percent in the United States and 2.4 in the euro zone, according Thomson Reuters data.

And consensus forecasts call for 2014 sales to pick up even further, especially in the U.S., where a recovery, it is hoped, could be spurred by rapid growth in shale oil and gas supplies.

Companies in the middle of the current hoped-for recovery are wary, as reflected in results from two of Europe's biggest manufacturers on Wednesday. Siemens warned that industrial demand was weakening,

while Unilever said economic conditions were "tough", though it had countered this by faster innovation in its products.

Longer term, CEOs are more optimistic, but there are bound to be questions over delivery, given that only around a tenth of companies in the S&P Global 1200 index have seen revenue growth outstrip economic growth in each of the past three years.

In the fight to buck the slow-growth trend, nimbleness is key as companies move away from broad-based bets to more targeted strategies that they hope will win market share.

"Uncertainty is itself becoming more of a certainty," said Jonas Prising, who heads Manpower's operations in the Americas and southern Europe. "In this new environment, strategic flexibility becomes all important."

Mergers and acquisitions would be one way for corporations to buy growth -- but CEOs remain reluctant to undertake large-scale deals, despite cheap credit and relatively low valuations.

In fact, the focus of CEOs on M&A is at the lowest level in six years, according to the executives surveyed by PwC.

"M&A activity is going to be

very focused, very targeted and certainly nowhere near the levels that we saw over the past several years," said PwC International Chairman Dennis Nally.

The calamitous nature of some bold deals from the recent past, such as those of miner Rio Tinto, whose CEO was sacked last week, will do nothing to encourage boldness by other business leaders.

An important focus for companies now is on smarter ways to serve sections of their existing markets, while placing selective bets on new openings.

For many, this involves embracing digital technology to keep pace with changes in how consumers buy goods and services - from shifting more resources to online sales to greater use of new tools to analyse behaviour.

But new opportunities come in many guises. Luxury goods companies, for example, are aggressively growing their retail networks, especially flagship stores, particularly in growth markets, while companies in many sectors are chasing new service contracts that can lock in profits for years.

Geography, too, remains a vital lever for managers to pull as they chase new sales. For Spanish companies struggling with a dire home market, Latin America has become a prime target because of their language advantage, helping the likes of telecoms giant Telefonica.

Others are betting that the US market will indeed surge back this year, including German carmaker BMW and fashion house Hugo Boss.

With \$5 trillion to find, the world's business leaders can afford to leave no stone unturned.

America has multiple deficits

LAWRENCE SUMMERS

SINCE the election, American public policy debate has been focused on prospective budget deficits and what can be done to reduce them. The concerns are in part economic, with a recognition that debts cannot be allowed, indefinitely, to grow faster than incomes and the capacity repay. And they have a heavy moral dimension with regard to this generation not unduly burdening our children. There is also an international and security dimension: The excessive buildup of debt would leave the United States vulnerable to foreign creditors and without the flexibility to respond to international emergencies.

While economic forecasts are uncertain, the great likelihood is that debts will rise relative to incomes in an unsustainable way over the next 15 years without further actions beyond those undertaken in the 2011 budget deal and the end of year agreement that averted a fall over the "fiscal cliff." So even without the risk of self-inflicted catastrophes -- like the possible failure to meet debt obligations or the shutting down of government -- it is entirely appropriate for policy to focus on reducing prospective deficits.

Those who argue against a further concentration on prospective deficits on the grounds that -- contingent on a forecast that assumes no recessions -- the debt to gross domestic product ratio may stabilise for a decade counsel responsibly. Given all uncertainties and current debt levels, we should be planning to reduce debt ratios if the next decade goes well economically.

Reducing prospective deficits should be a priority -- but not an obsession that takes over economic

policy. This would risk the enactment of measures such as pseudo-temporary tax cuts that produce cosmetic improvements in deficits at the cost of extra uncertainty and long-run fiscal burdens. It could preclude high-return investment in areas such as infrastructure, preventive medicine and tax enforcement that would, in the very long term, improve our fiscal position.

Economists have long been familiar with the concept of "repressed inflation." When concern with measured inflation takes over economic policy and drives the introduction of price controls or subsidies to hold down prices, the results are perverse. Measured prices may not rise and so the appearance of inflation is avoided. But shortages, black markets, and enlarged budget deficits appear. The repression is unsustainable. When it is relaxed, measured inflation explodes, as in the case of the Nixon price controls in the early 1970s.

Just as repressing inflation is misguided, so also repressing budget deficits can be a serious mistake. As with corporate managements judged only on a single year's earnings take perverse steps that are ultimately harmful to shareholders, government officials in the grip of a budget obsession repress rather than resolve deficit issues. When arbitrary cuts are imposed, government agencies respond by deferring maintenance leading to greater liabilities later. Or compensation is provided in the form of promised retirement benefits that are less than fully accounted for, with the ultimate burden on taxpayers increased. Or measures like the recent Roth IRA legislation are enacted, encouraging taxpayers to accelerate their tax payment while reducing their present value.

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